

DAU Hosts Third Annual Business Managers' Conference

Issues Affecting the DoD Business and Financial Management (BFM) Workforce

JONI FORMAN

The Third Annual Business Managers' Conference (BMC) was held at Fort Belvoir, Va., on June 12-13. The Conference brought together more than 300 senior DoD acquisition and comptroller executives as well as Program Executive Officer/Program Manager/Systems Command (PEO/PM/SYSCOM) Business Managers/Program Control Chiefs and Service Headquarters business staff for wide-ranging discussions of acquisition and financial topics. To encourage broader discussions, this year's invitations were extended to a limited number of industry managers. Conference attendees were provided with information on the latest acquisition, financial management, personnel, and legislative initiatives.

Included among the conference presentations were appearances by two Under Secretaries of Defense, who described recent developments in financial management and personnel management. Many of the speakers also addressed how DoD's new emphasis on evolutionary acquisition will affect such discrete fields as cost estimating, financial management, and logistics support.

Conference Welcome

Defense Acquisition University Provost Rich Reed welcomed the conferees and spoke on "DAU Today." He noted that DAU has undergone a significant trans-

formation in the past few years. "It is important for you to know that we are trying to change as much as the atmosphere out there is changing," he said.

Particular changes he described included the recent emphasis on establishing Web-based Communities of Practice and the significant growth in development of Continuous Learning opportunities. This change in emphasis, he said, has resulted in a considerable expansion of Web-based training and a corresponding reduction of in-class training. The result is to reduce travel expenses and time away from the office and to allow more acquisition pro-

Lou Kratz, Assistant Deputy Under Secretary of Defense, Logistics Plans and Programs, OSD.

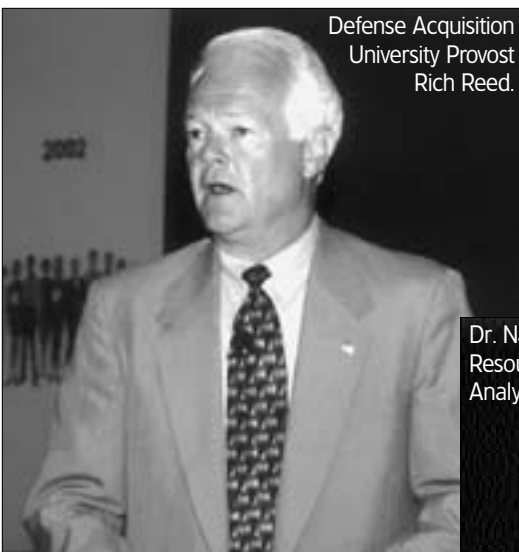


fessionals to receive training. "The availability of training," Reed said, "is now much greater to you, the workforce."

Conference Keynote

Dr. Nancy Spruill, Director, Acquisition Resources and Analysis, set the stage for the conference. She thanked the audience for their participation and gave an

Forman is the Deputy Executive Director, Curricula Development and Support Center, Defense Acquisition University, Fort Belvoir, Va.



Defense Acquisition
University Provost
Rich Reed.

overview of several key issues affecting the Business and Financial Management (BFM) workforce.

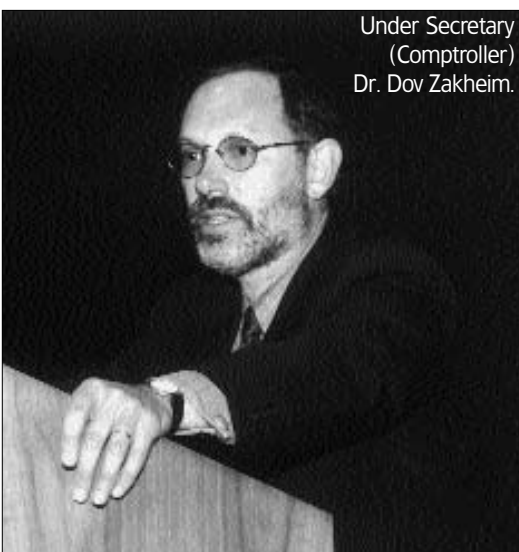
Increased Use of Evolutionary Acquisition/Spiral Development

Spruill noted that the Services are increasingly defining "block" pro-

Dr. Nancy Spruill, Director, Acquisition Resources and Analysis, OSD.



Deidre Lee, Director,
Defense Procurement and
Acquisition Policy.



Under Secretary
(Comptroller)
Dr. Dov Zakheim.

Nancy Spruill, Director, Acquisition Resources and Analysis, OSD; Joni Forman, Deputy Executive Director, DAU Curricula Development and Support Center; and Dr. Richard Burke, Director, Operations Analysis and Procurement Planning Division, Program Analysis and Evaluation, OSD.

curements in their operational requirements documents and other acquisition plans.

Reducing Acquisition Documents

Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) E.C. "Pete" Aldridge and his Principal Deputy, Mike Wynne, have both directed a reduction in the number and complexity of acquisition requirements in order to allow more flexibility and innovation.

Realistic Funding

Spruill commented that "Mr. Aldridge is committed to basing programs on more realistic cost estimates. This is vital to restoring our credibility with Congress." She observed that realistic funding "often means funding to the CAIG [Cost Accounting Improvement Group] estimate, but not always; Mr. Aldridge has the flexibility to take the most realistic estimate."

Nunn-McCurdy Breaches

For reporting to Congress, as of December 2001 six of the 74 programs had breaches of more than 25 percent. By law, DoD had to make the following four certifications for each of these programs or funding would be cut off:

- The system is essential to national security.



- No alternative that would provide equal or more military capability at less cost is available.
- Costs are under control.
- A management structure is in place that is adequate to control costs.

Spruill commented that of the four, she believed that the hardest to certify was the adequacy of the management structure. All six programs were examined in detail, including the program changes needed to give Aldridge the confidence

Conference Exhibits

During breaks and before and after sessions, conference attendees were given the opportunity to view a number of exhibits sponsored by various government organizations.

- **Army Research, Development and Acquisition (RDA) Budget Update Computer System**—POC: Sheila Wyatt
- **American Society of Military Comptrollers (ASMC) Certification**—POC: John Raines
- **Cost as an Independent Variable (CAIV) Analysis Tool (CAT)**—POC: Terrell Matthews
- **Defense Acquisition University**—POC: Sharon Richardson
- **Enterprise Software Initiative**—POC: Jim Clausen
- **Naval Financial Management Career Center**—POC: Tom Steinberg

he needed to certify the programs. But in making these certifications, he stressed that if any fell short, he would not hesitate to cancel.

Acquisition of Services

Almost as much money now is spent to acquire services as to acquire products, and there is concern by the Congress that adequate policies and practices are not in place. Spruill stated, "I will be leading a team that looks at the processes being established and advise Mr. Aldridge whether they meet the Congressional requirements."

Financial Management Modernization

The leaders of DoD's acquisition and financial management communities are supporting new Federal Accounting Standards Advisory Board (FASAB) requirements. One new requirement is that DoD must capture the full costs of all new and existing systems. Costs must be capitalized on a balance sheet and depreciation must be taken. Spruill said that there were several key principles. "We want to minimize the impact [of

these changes] on warfighters and program managers. We want to keep changes as simple as possible. We want to avoid new data calls."

Financial Management

Under Secretary of Defense (Comptroller) Dr. Dov Zakheim discussed new developments in the Financial Management Modernization Program (FMMP); Ron Brooks, OUSD(C) [Office of the Under Secretary of Defense (Comptroller)] provided the details of DoD's FMMP initiative.

Zakheim noted that he had previously served in DoD nearly 20 years ago—at the height of the Cold War. When he returned, he found that "The mechanics and fundamentals of the process are remarkably unchanged, like PPBS [Planning, Programming and Budgeting System], the acquisition process, or the FM [Financial Management] process. When things don't change, you build up a culture—a way things are done that is passed on from generation to generation."

There are over 1,100 different systems in DoD's current financial management process, Zakheim stated. "It is miraculous that we can track our money at all. We have to fundamentally overhaul the way we do business" and get rid of the majority of these systems. "We need a management system," he emphasized, "that gets the right information to the right people at the right time."

Brooks stated that FMMP "is not about financial systems. What it is about is re-engineering business processes." Brooks spoke of Secretary of Defense Donald Rumsfeld's confirmation hearing, where the Secretary pledged that fixing DoD's FM systems would be among his highest priorities. In a July 2001 memorandum, the Secretary assigned responsibilities for this program to Zakheim. Since then, the initiative has received widespread support. "The highest levels of the Department are interested in this program," Brooks emphasized, "and there is also widespread support on Capitol Hill, the General Accounting Office, the Office of Management and

Budget, and the DoD Inspector General."

He observed that this effort is not limited to purely financial operations because "most of the financial information generated by the Department does not reside in the Comptroller's systems; it's in personnel and logistics and healthcare and other systems." But he assured the audience that "the Comptroller is not interested in taking over other systems; we want to work with those non-financial systems owners to make sure they provide the information we need."

Workforce Management and Development

Under Secretary (Personnel and Readiness) Dr. David Chu and Geri Manning, OUSD(C), addressed workforce management and development issues. Chu noted that DoD must develop more flexible personnel management systems, integrating pay and personnel management into the same system.

DoD faces unique challenges due to the worldwide nature of its responsibilities. "When a soldier deploys, the CINC [Commander in Chief] can't manage four separate personnel systems. Now, it's difficult to know even basic information like where the person is, or whether he or she was exposed to toxic materials." The Defense Integrated Human Resources System, which will integrate pay and personnel management worldwide, is a unique challenge, Chu said. Extensive benchmarking of major corporations showed that there is nothing comparable in the private sector, "not even a single worldwide pay system, or a single worldwide personnel management system, let alone one that combines both."

Chu also asserted that DoD's managers need increased flexibility to identify vacancies and make job offers. "It is inexcusable in this day and age to take as long to make a job offer as we do," he said. He invited the audience to submit horror stories of examples where personnel system inflexibility had caused them to lose a "must hire," and pledged

to do everything he could to upgrade DoD's systems.

Manning provided an overview of the draft DoD Financial Management Civilian Workforce Development Strategic Plan. She noted that Human Capital issues are at the top of the national agenda. The President has made this a major area of emphasis and the GAO has identified it as a high-risk area. In November 2001 a work group was established by the OUSD(C), with the support of the Under Secretary of Defense (Personnel and Readiness), to conduct a review of the financial management workforce. The work group focused on workforce planning, performance metrics, technical competencies, recruitment, retention, education and training, professional certifications, and advanced degrees.

Manning commented that the current financial management personnel management processes are fragmented and not fully integrated. Most of the FM personnel management functions are at various stages of development. One of the interim objectives is to employ a life cycle approach for FM personnel development that promotes balance between management priorities and employee needs and expectations. The Strategic Plan proposes using an integrated approach to ensure that the DoD FM community is ready to meet the challenges it will face over the next decade. Some of the interim objectives in the Strategic Plan include the following:

- Develop an FM workforce baseline (number of personnel, education, professional certification, advanced degree, experience, etc.), and implement a system for keeping data current.
- Adapt industry best practices on workforce development performance metrics.
- Develop clear, concise career paths for FM occupational codes.
- Move toward multi-skilled positions to replace current, narrow, and stovepiped specialties.
- Develop and implement an innovative, aggressive DoD FM recruitment strategy.

“If you’re under-funding programs in the out-years, you’re setting yourself up to fail. There is no way good program management can make up for inadequate resources.”

—Dr. Richard Burke
Director, Operations Analysis and
Procurement Planning Division
Program Analysis and
Evaluation, OSD

- Recruit employees with professional certifications and advanced degrees.
- Facilitate formal education and training leading to professional certifications and advanced degrees.

Other Issues

Dr. Richard Burke, Director, Operations Analysis and Procurement Planning Division, Program Analysis and Evaluation; Lou Kratz, Assistant Deputy Under Secretary of Defense, Logistics Plans and Programs; and Deidre Lee, Director, Defense Procurement and Acquisition Policy, discussed related policy initiatives in areas such as cost estimating, life cycle management, and procurement.

Cost Estimating

Burke cited three major purposes for cost estimates. “We use them to compare alternative solutions. We compare life cycle cost in the Analysis of Alternatives to comparative costs of alternate reasonable solutions to a problem. We have cost estimates at the major milestones to inform decision makers how to proceed, or whether to proceed, with a program. Finally, we use them to inform preparers of the President’s budget.”

A principal purpose of the cost estimate is to determine whether adequate resources are available for the program. In the past, he noted, “we had a period where there was a lot of emphasis on low cost estimates. The current set of decision makers is not focused on low cost estimates; they’re focused on executable programs.” As a result, “we have had to deal with significant under-funding of programs—by the CAIG’s estimate a \$30 billion shortfall in the FYDP [Future Years Development Plan]. If you’re under-funding programs in the out-years, you’re setting yourself up to fail. There is no way good program management can make up for inadequate resources.”

Burke commented on DoD’s new emphasis on evolutionary acquisition. “This will be a challenge to cost estimators as well as planners.” Program definitions and plans are not static, he said. Often, DoD planners cannot see four to five years out. Systems bought in an evolutionary manner, Burke noted, are also more likely to have concurrent development and production, and multiple configurations will be in the field.

“You don’t have a long production run of exactly the same item,” he said. “This makes O&S [Operations and Support] plans more complex and is likely to increase the risk of obsolescence. This will require both the acquisition community and the cost estimators to be more nimble.”

Burke addressed a number of other issues related to cost estimating, including Nunn-McCurdy. There is considerable focus on the Nunn-McCurdy requirements because “the senior leadership is really focused on trying to restore DoD’s credibility on Capitol Hill. This means when we submit a cost estimate up there, it has greater credibility.”

The process of certifying Nunn-McCurdy programs, he explained, begins with a review of actual costs. The key question is “What caused the cost growth? Is it contractor performance? Is it a problem with the cost estimate?

Is it due to changes in the program? And what can we do to fix it?"

Burke also noted that DoD has combined the program and budget review process. "The major emphasis is to ensure that the FY04 President's budget and the FY04-9 FYDP reflect Administration transformation priorities." The timelines for budget preparation and review will be challenging, he added, as will the guidance requiring full funding and realistic cost estimates.

Burke reminded the audience of DoD's instructions to the Services, which stated that "In order to achieve program stability and avoid costly stretch-out, [the Services shall] properly price programs at not less than levels estimated by the Cost Analysis Improvement Group." Where there are large variations between the CAIG estimate and the Service estimate, Burke stressed, "the onus will be on the Services to explain."

Life Cycle Management

Kratz discussed the new Total Life Cycle Systems Management concept that has been developed within the logistics community. "We want to make sure sustainability and maintainability is integrated up front in the acquisition process," he said. Currently, the requirements process emphasizes weapon system performance, he noted, but gives limited attention to life cycle sustainment. Kratz said the estimated weapon system sustainment cost is \$62 billion, but it is currently impossible to link these costs with performance.

Achieving a Total Life Cycle focus will require a lot of changes in the system. Kratz observed that "When I go to a program office, I never find a PM who can't tell me exactly where they are in the test process, exactly where they are according to the schedule, or exactly the status of the various appropriations accounts we ask them to manage. I don't get the same when I ask about sustainment."

He noted that PMs nominally are responsible for life cycle management, but they generally do not control sustain-

ment funds, have limited training in sustainment, and have few mechanisms to maintain control of the system.

Kratz explained that financial tracking is difficult under the current system. Sustainment funds are dispersed among multiple entities, including warfighters, product centers, and program managers. The process tracks transactions rather than capabilities, he noted, with an increased accounting burden for the customer and increased transaction costs.

Under the proposed Performance Based Logistics (PBL) process, Kratz said the force provider would define requirements and an acceptable range of performance, which would be purchased as a package. The program manager would be responsible for delivering performance as a package, he added, and would negotiate performance agreements with logistics support providers.

According to Kratz, the concept has been successfully tried with a number of Pilot Programs under DoD's Reduction of Total Ownership Cost (R-TOC) program, and the Joint Logistics Board has approved a number of actions to support this concept, including development of Performance Based Logistics implementation schedules, working with the Comptroller to develop financing mechanisms, appropriate revisions to DoD acquisition regulations, and improvements in the Defense Acquisition University curriculum to include total life cycle management concepts.

Kratz stressed that the concept he described is "a desired end state. Nobody is suggesting that we will flip a switch and arrive at this state immediately. This is a very complex problem."

Procurement

Lee discussed some key issues affecting DoD procurement, notably issues involving use of government credit cards and General Services Administration (GSA) schedules. Congress gave DoD increased latitude in a number of areas in recent years, Lee said, but more recently has focused on perceived abuses

of new procedures. Defense committees on Capitol Hill have developed new legislation and pressured DoD to make changes in procurement practices, she said. Some of these new requirements may make it somewhat more difficult for DoD acquisition managers to do business in the future. She stressed that while her office will continue to work with Congress to correct misunderstandings, it is important for acquisition executives to abide by Congressional mandates.

Conference Conclusion

As the Conference concluded, Conference Chair Dr. Nancy Spruill, Director, Acquisition Resources and Analysis, thanked the audience for their participation and their comments, which will be used to plan next year's Business Managers Conference. She said her preliminary conclusion was that next year's Conference should have more discussion of evolutionary acquisition, more information on the Business Initiative Council, and increased participation by financial management, logistics, and personnel specialists.

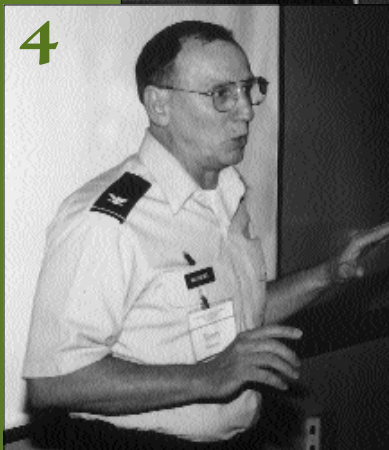
Questionnaire Responses Help Plan Future Conferences

Conference organizers distributed a detailed questionnaire along with registration materials, and received responses from more than half of the people who attended the Third Annual BMC. Insights gained from these questionnaires will help plan future conferences.

Eighty-six percent of those responding gave the conference a favorable rating. Attendees rated the conference highest for providing "insights into acquisition policy thrusts," "learning things useful in my job," and "important cross-communication with peers." Eighty-five percent or more of the people responding to the survey favored continuing to hold the conference once a year and favored the current two-day format.

There was general agreement that the right amount of time was provided for Q&A with the speakers. The respondents agreed that the number and level of attendees was about right and that

Breakout Groups



Conference attendees also had the opportunity to attend three separate breakout sessions (a total of 18 subject areas) during the course of the Conference. The breakout groups addressed significant new programs and policy initiatives in the areas of program control, business management, cost and budget analysis, and related areas. Many of these breakout groups were directly supportive of the major conference themes.

- Activity Based Costing, Andrew Wallen
- Business Management Integration Analysis, Roberta Tomasini
- Contractor Cost Data and Software Metrics Requirement, Mike Augustus, OSD Cost Analysis Improvement Group
- Contract Incentives/Business Case, Chip Summers
- Cost as an Independent Variable (CAIV) Analysis Tool (CAT), Army Col. Terrell Mathews
- Defense Contract Management Agency (DCMA) Insight and Perspectives on Achieving Programmatic Outcomes, Steve Krivokopich, William Hill, and Army Col. Steven Perry
- Defense Acquisition Executive Summary (DAES)/Selected Acquisition Report (SAR)/Acquisition Program Baseline (APB)/Nunn-McCurdy Unit Cost Reporting, Bob Leach
- Earned Value Management Basics, Bob Carlson
- Enterprise Resource Planning Update, Alisandra Snyder
- Fundamentals of Scheduling, Dave Bachman
- Integrated Baseline Review, Randy Smith
- Integrated Master Plan/Integrated Master Schedule, Peg Johnson
- Integrated Program Management, Dave Bachman
- An Introduction to the Business Initiative Council (BIC), Philip Rodgers
- OSD Budget Review, John Roth
- Requirements Generation System Initiatives, Navy Capt. Kevin Peppe
- Schedule Analysis and Assessment, Peg Johnson
- A Theoretical Consideration of Acquisition Reform, Deb Frank

1 Peg Johnson, Breakout Group on Schedule Analysis and Assessment

2 Philip Rodgers, Breakout Group on Introduction to the Business Initiative Council

3 Bob Leach, Breakout Group on Defense Acquisition Executive Summary (DAES)/Selected Acquisition Report (SAR)/Acquisition Program Baseline (APB)/Nunn-McCurdy Unit Cost Reporting

4 Army Col. Terrell Matthews, Breakout Group on Cost as an Independent Variable (CAIV) Analysis Tool (CAT)

5 Dave Bachman, Breakout Group on Fundamentals of Scheduling

industry participants should continue to be invited. Most participants favored individual speakers rather than panels (which were more prevalent at last year's BMC).

There was widespread support for the Breakout Groups. Some participants suggested reducing the length of Breakout sessions and shortening breaks to allow time for another set of topics. Some of the additional Breakout Group topics suggested for next year included:

- Cost estimating for evolutionary acquisition
- "View from the Hill"; Congressional staffer view of FM/acquisition
- Earned value management, industry status and link to FM modernization
- Transformation, total ownership cost/life cycle issues; best practices; performance based acquisition/payments

- Career paths.

Conference participants also praised the exhibits and requested that similar exhibits should be included in future conferences.

The Fourth Business Managers' Conference will be held on May 14-15, 2003.

Editor's Note: Presentations from the conference, speaker biographies, and more information about the conference are posted to the conference Web site at <http://bmc.ida.org/2002/>.

The DAU Communities of Practice Web site is: <http://www.pmcop.dau.mil/pmcop/>.

The DAU Continuous Learning Center is found at: http://clc.dau.mil/kc/no_login/portal.asp.

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Inside DAU



Richard H. Reed, DAU Provost, retired effective Sept. 1, 2002, after 11 years' federal service. Reed had served as Provost of the Defense Acquisition University since Oct. 1, 1997. Previously, he served as the Defense Systems Management College (DSMC) Dean of Faculty, a position to which he was appointed in October 1994. Prior to becoming the DSMC Dean of Faculty, Reed held the position of Associate Dean from 1991 to 1994. He also served DSMC as Department Chair for the Systems Engineering Department from 1989 to 1991. Reed and his family will reside in North Carolina.



Fulfilling a lifelong dream, Cathy Pearson, Chief, Civilian Personnel Services Office, Human Resources Department, Operations Group, departed the University on August 20 to accept a position with the Peace Corps. Pearson was a mainstay and trusted advisor in the Human Resources Department where she had served since 1987. She was also the Acting Director of Human Resources from November 1998 to September 2000. Upon her departure, DAU President Frank Anderson Jr. presented her the Civilian Superior Service Award.